



**Directorate of
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USSR Monthly Review

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April 1984

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The *USSR Monthly Review* is published by the Office of Soviet Analysis. Comments and queries regarding the articles are welcome. They may be directed to the authors, whose names are listed in the table of contents.

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Soviet "Active Measures" in Latin America

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The level of Soviet intelligence activity in Latin America directed toward the support of foreign policy objectives—as opposed to information gathering—is low when compared with that in some other regions of the world. This apparently is because Moscow has proxies—principally Cuba—that regularly undertake political influence operations whose purposes largely coincide with Soviet objectives. The Soviets also wish to avoid antagonizing the most important states of the region.

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Soviet Economic Relations With Latin America

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Soviet economic ties to Latin America have expanded rapidly in recent years, but the trade relationship has been mainly one sided. Moscow turned to the region for essential agricultural commodities to offset domestic shortfalls, and growth in trade with the USSR has become a highly profitable venture in the last few years, especially for Brazil and Argentina. The USSR has enjoyed only limited success in expanding its exports to the region, however, even when goods were offered on favorable terms.

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Soviet Economic Aid to Cuba: Patterns and Prospects

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Moscow's commitment to sustain a troubled Cuban economy has led in recent years to rapidly rising economic costs for the USSR. As long as Moscow continues to derive significant political and military benefits from its preeminent Third World client, we judge that the USSR will continue to provide large amounts of aid to Cuba. The Kremlin has made it clear to the Cubans that there are limits to Soviet largess, however, and we believe that, unless the pricing formulas used in Soviet-Cuban trade are altered, the annual aid flows will decline slightly over the next two years.

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USSR-South America: Looking Ahead

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Moscow's pessimism about prospects for revolutionary change in South America suggests a continued focus on expanding commercial and political ties with Argentina, Brazil, Bolivia, and Peru. The Soviets will not jeopardize good state-to-state relations by offering strong public support for local radicals but are likely to continue offering such elements discreet encouragement to undermine pro-US regimes. Suriname, Guyana, and Chile may offer the best opportunities for expanded Soviet influence in the region.

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Other Topics**The USSR's Favorable Hard Currency Position**

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In 1983, as in 1982, the USSR succeeded in holding down its hard currency borrowing needs by boosting military deliveries to less developed countries, increasing the volume of oil exports, and restricting growth in imports.

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Moscow's recently published 20-year energy program is an ambitious set of objectives and plans for improving all aspects of the Soviet energy system, but it appears to rely heavily on improvements in capital and labor productivity that we believe are beyond reach.

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Cuban Civil Defense: The Soviet Connection [REDACTED] 43

Soviet involvement in Cuban civil defense has increased over the past few years as Havana has tried to improve the civilian sector's preparedness for a major military crisis. Although the future of the effort is unclear, a strong civil defense program would contribute to overall Cuban defensive capabilities. The Soviets probably view support of this effort as a low-cost means of extending influence throughout the Cuban Government. [REDACTED]

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Viewpoint**Party-Military Relations: Who Is in Charge?** [REDACTED] 49

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An examination of recent Soviet speeches and events suggests that—contrary to speculation [REDACTED]—the military has not encroached on the prerogatives of the party leadership. [REDACTED]

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The USSR and Latin America

Perspective

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Standing in the shadow of US political, economic, and military power, Latin America has been a difficult target for major or sustained Soviet inroads. Nonetheless, over the past 25 years the USSR had made some significant gains: it has formed a strong—albeit costly—client relationship with Cuba, established diplomatic relations with all the key regional states, and expanded trade tenfold since 1970, primarily through its dealings with Argentina, Brazil, and Peru.

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Because Latin America is geographically remote from Soviet borders, however, it has not been a priority security concern for Moscow except when Cuban-related issues have promoted major US-Soviet confrontations, as in the 1962 missile crisis. The main Soviet objectives there have been to neutralize US influence in the region, promote leftist change, and cultivate beneficial state-to-state relationships.

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Since the demise of the Somoza government in Nicaragua during the late 1970s, the USSR has exploited the growing opportunities for revolutionary change in Central America. In Nicaragua, the Soviets have established an arms supply relationship and have recently begun providing oil to the Sandinista regime—a move that could signal a greater and more open Soviet commitment. Moscow also continues its aid and training efforts to support insurgents in El Salvador.

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Apart from its commitment to leftist change, Moscow views its activities in Central America as a relatively inexpensive way of diverting US attention and resources from other regions of the world more central to Soviet security concerns. The Soviets also recognize that tensions in Central America can raise controversy in the United States and sow divisions between Washington and its allies. Toward this end, Soviet media and propaganda have focused on US support of the anti-Sandinista insurgents, the US military buildup in Honduras, and the war in El Salvador.

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Soviet Diplomatic Relations in Latin America and the Caribbean



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While seeking to exploit revolutionary ferment, the Soviets have proceeded with some degree of caution. For example, Moscow has tried to play down the extent of its arms supply relationship with Nicaragua. The USSR's overriding concern is that Soviet actions could prompt US countermeasures against Nicaragua or Cuba—Moscow's most important assets in the Western Hemisphere. The US intervention in Grenada has reinforced this concern. [redacted]

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Nonetheless, Moscow has publicly signaled its growing concern and sensitivity to US policy in Nicaragua. General Secretary Chernenko met with Sandinista chief Daniel Ortega in mid-February and condemned US interventionism in Central America. He also mentioned Washington's "undeclared war" on Managua in a 29 March dinner speech. High-level Soviet concern was also reflected in a formal protest note—personally delivered by Foreign Minister Gromyko—over the March mine incident involving a Soviet tanker in Nicaraguan waters (see "Soviet-Nicaraguan Relations After Grenada"). [redacted]

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Cuba remains the cornerstone of Moscow's position in Latin America. Havana receives more financial support—currently some \$4-5 billion a year—than any other Soviet Third World client (see "Soviet Economic Aid to Cuba: Patterns and Prospects"). This large investment has paid considerable dividends for Soviet foreign policy; Cuba has promoted Soviet interests within the Nonaligned Movement, collaborated with Moscow in Angola and Ethiopia, and served as a conduit and springboard for Soviet efforts to further penetrate Latin America. [redacted]

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As elsewhere, however, Moscow does not want its support of leftist parties in Latin America to jeopardize important state interests. Indeed, the Soviets' state-to-state relationships in the region have brought important benefits, particularly in the area of trade (see "Soviet Economic Relations With Latin America"). Moscow has developed major trade relationships with Argentina and Brazil, which account for 90 percent of Soviet trade in the region. Although Latin America has accounted for only 2 to 3 percent

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of total Soviet trade in recent years, food imports from Latin America have played an important part in Moscow's efforts to avoid excessive dependence upon US suppliers. In 1980, for example, the USSR upped its grain purchases from Argentina tenfold to offset the US grain embargo imposed after the Soviet intervention in Afghanistan. [redacted]

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The Falklands war opened up new opportunities for Moscow to pursue its longstanding goal of undermining and neutralizing US influence in the region. Soviet propaganda focused on Washington's backing of the British "colonialists" in an effort to arouse latent anti-US sentiments. The US move in Grenada has also prompted a good deal of Soviet propaganda and disinformation (see "Soviet Active Measures in Latin America"). [redacted]

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In addition to Moscow's continued relationship with all the Latin American Communist parties and its material assistance to insurgents in Central America, other indicators attest to a concerted, long-term Soviet effort to cultivate influence in the region. The USSR, for example, has greatly expanded its number of Spanish-language publications and is working to enhance the expertise of diplomats and media personnel assigned to Latin America. [redacted] in recent years the Soviets have established two new Novosti centers—in Nicaragua and Argentina—and three regional bureaus for the journal *Latinskaya Amerika*. In the early 1980s the Soviets also established a visitors' program through which Latin American journalists and opinionmakers are invited on all-expense-paid trips to the USSR with the tacit understanding that they will portray their visits in a favorable light. These innovations and changes signal Moscow's long-term intention of increasing its visibility and undercutting Washington's position among its Latin neighbors. [redacted]

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Soviet-Nicaraguan Relations After Grenada

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Since the US intervention in Grenada, Soviet propaganda has frequently raised the specter of a similar US move against Nicaragua. While Moscow is evidently determined to avoid provoking direct US military action against the Sandinista regime, it has provided increasing amounts of military and economic assistance to bolster the government in Managua.

Soviet Policy Toward Managua

Since the Sandinista revolution of July 1979, the Soviets, mindful of the value of a leftist regime in Managua for promoting leftist change in Central America, have had a strong interest in consolidating the Sandinistas' position. At the same time, memories of US efforts to oust Castro in the early 1960s have led the USSR to proceed with care in Nicaragua.

The Soviets have avoided any gestures or agreements that could be construed as a commitment to military defense of the Sandinista regime. Even though the Sandinistas are approaching their fifth year of power, Moscow has yet to send a high-level delegation to Managua. By way of contrast, in February 1960—just 13 months after Castro seized power—then Deputy Premier and Politburo member Anastas Mikoyan was in Havana to sign a host of agreements that symbolized the emerging Soviet-Cuban relationship. Most of the authoritative Soviet statements on Nicaragua have focused on Managua's ability to defend itself, reflecting Moscow's apparent desire to avoid tying its prestige to the survival of the Sandinistas.

Moscow's overriding concern reportedly has been that Washington might be provoked to undertake direct US countermeasures against Nicaragua, or even Cuba—the USSR's most important asset in the Western Hemisphere. Even before the Grenada invasion, Soviet officials in Latin America maintained that the United States was seeking a pretext to invade Nicaragua.

Military Assistance

Moscow's cautious approach toward Nicaragua has been most apparent in the way the Soviets have handled their arms relationship with the Sandinistas. From the first secret visit of Soviet generals to Managua—just one month after the Sandinista takeover—Moscow has sought to obscure and play down its military dealings with Nicaragua. There have been no public military supply agreements between the Soviets and Nicaraguans, although it is likely that such agreements exist secretly; captured documents from Grenada, for example, revealed the existence of such accords between Moscow and the Bishop regime.

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Although deliveries of Soviet military equipment have been under way since 1981, this equipment frequently is transported by third parties. The initial delivery of T-54/55 tanks, for example, was made by Algerian ships. The most recent delivery of Soviet PT-76 amphibious tanks—in March 1984—was handled in a similar fashion with Bulgarian ships transporting the equipment. Small arms and military-related equipment, however, are often transported by Soviet vessels.

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While taking steps to minimize and obscure their direct involvement, the Soviets nonetheless seek to provide the Sandinistas with enough military assistance to sustain and consolidate their power. Some 100 Soviet military and security advisers continue to work with the Sandinista security service and the general staff. Moscow presumably views such assistance as essential in the struggle against the anti-Sandinista insurgents, and as a way of further consolidating the leftist regime in Managua against potential domestic political opponents.

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Economic and Diplomatic Support

While playing down their military aid to Managua, the Soviets have trumpeted their food and relief donations. Soviet media seek to contrast Moscow's

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generosity with US cutbacks of aid and alleged attempts to destabilize the Nicaraguan economy. Overall, the USSR has offered some \$250 million in aid since 1981 and is currently negotiating a new \$150 million accord, most of which is for a long-term dam project. To date, some \$125 million of Soviet aid has been drawn. Other Soviet assistance includes agricultural machinery, road construction equipment, trucks, and food. [redacted]

The USSR has promoted international support for the Sandinistas through diplomacy and media campaigns, particularly since the Grenada episode. These efforts have focused largely on Mexico, which has been sympathetic to the Sandinista cause. [redacted]

[redacted] A 10 February *Pravda* article, for example, lauded President de la Madrid's position on Central America. [redacted]

The Soviets also have tried to drum up international criticism of US involvement with the Nicaraguan insurgents. Following release of the Kissinger Commission report in January, the Soviets launched a two-week media blitz on the report's recommendations for increased military aid to the Salvadoran Government and its implicit call for continued support of the Nicaraguan insurgents. Similarly, the Soviet press has highlighted international criticism of the US role in mining Nicaraguan harbors. *Pravda* also carried an interview with Sandinista junta coordinator Daniel Ortega, in which he described the impact of US pressure on the Nicaraguan economy. [redacted]

[redacted] Moscow has also tried to "internationalize" the Nicaraguan situation by seeking Third World "volunteers" to fight alongside the Sandinistas in the event of a US invasion. This would presumably reflect Managua's "broad" external support in its battles with Washington. [redacted]

Despite all this, Moscow has not officially endorsed the efforts by the Contadora group to negotiate a regional settlement. This may reflect a Soviet concern that such a regional settlement might limit Managua's maneuverability and policy options. [redacted]

The Salvadoran Connection

Since Washington identified Nicaraguan support for the Salvadoran guerrillas as the reason for US support of anti-Sandinista insurgents, Moscow has been circumspect in its dealings with the Salvadorans but continues to facilitate the insurgents' efforts to obtain arms from other countries. [redacted]

The USSR has also backed the guerrilla cause with international propaganda campaigns and promotion of local "Solidarity With El Salvador" committees in Eastern Europe and Third World countries. Propaganda efforts also have been directed at the Salvadoran armed forces. [redacted]

As in the case of Nicaragua, the Soviets have also conducted a propaganda campaign to garner international support for the Salvadoran insurgents and to focus attention on US involvement in El Salvador. Soviet commentary, for example, described the recent Salvadoran elections as stage-managed by Washington and claimed that many citizens did not vote as a protest against the "disgraceful farce." Authoritative statements continue to support Cuban and Nicaraguan calls for a negotiated settlement in El Salvador. [redacted]

Straws in the Wind?

Despite the Soviets' continued low profile in Nicaragua itself, the USSR has signaled greater concern and interest in Nicaragua's situation. General Secretary Chernenko, for example, met privately with Daniel

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Ortega following the Andropov funeral, an opportunity not afforded Ortega by Andropov at the time of Brezhnev's funeral in November 1982. Soviet commentators described the meeting as a sign of Moscow's solidarity with newly liberated peoples, "especially those who are forced to repel attacks from imperialist forces," adding that "actions and deeds will follow." Chernenko also noted Washington's "undeclared war" on Nicaragua during a dinner speech on 29 March. High-level Soviet concern over developments in Nicaragua was also suggested by the fact that Foreign Minister Gromyko personally handed to US officials the Soviet protest note over the Lugansk tanker incident. [redacted]

Another indicator of Moscow's growing concern and interest is an apparent decision to provide Managua with oil. The first delivery, in December 1983, was apparently intended to help offset an anticipated shortfall. Since then Soviet tankers have made several additional oil deliveries. [redacted]

[redacted] Moscow has provided an estimated 900,000 barrels of crude oil and refined oil products. This represents an estimated 58 percent of Nicaraguan consumption for the first four months of 1984; payments are to be made in sugar and coffee.

[redacted]

Past comments from Soviet officials clearly indicate Moscow's desire to avoid having to underwrite yet another Latin client. Cuba currently receives over \$4 billion a year from the USSR. Compared to Cuba, however, Nicaragua has a smaller population (2.9 million versus 10 million), is less industrialized, and would require less financial support to sustain its economy. Moscow could supply Nicaragua with all of its current oil needs, for example, by exporting only some 14,000 barrels per day—equivalent to roughly \$150 million a year. Thus far, the Soviets have not offered the concessionary prices that have been a crucial element in Moscow's economic relationship with Cuba. But looking back at their experience in

Cuba, the Soviets may view growing economic ties as a pragmatic way of strengthening their position and influence in Managua and one that would not undercut Moscow's desire to maintain a low profile on military aid. [redacted]

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The upcoming fifth anniversary of the Sandinista revolution will presumably shed some light on Soviet perceptions of Nicaragua. The visit of a high-level delegation headed by a ranking Politburo member, such as Aliyev or Gorbachev, would clearly signal Moscow's growing interest in—and commitment to—the Sandinista regime. [redacted]

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Soviet "Active Measures" in Latin America

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Moscow's use of *active measures*¹ to advance its foreign policy goals in Latin America appears far less extensive than in some other regions of the world. For example, forgeries and disinformation do not appear nearly as frequently as they do in Europe or Africa. Also, Soviet political influence operations in Latin America are generally mounted on a smaller scale. Only within the pro-Soviet Communist parties and front groups of Latin America does the Soviet Union appear to be operating in a consistently determined manner.

We believe the comparatively low frequency and intensity of Soviet active measures in Latin America can be explained in large part by the significant role played in this regard by Moscow's surrogates in the region, principally Cuba and Nicaragua. The Soviets may also believe that active measures are less suited than traditional diplomacy to advancing their policy objectives in this region. Apart from the demands of the USSR's unique relationships with Cuba and Nicaragua, the overriding Soviet objectives in Latin America are supporting the Central American revolution, undermining US influence in the region, and encouraging nonalignment or a pro-Soviet stance.

These predispositions notwithstanding, Moscow has undertaken active measures in a number of Latin American countries, and we have sufficient evidence to describe the nature and extent of this activity.

The Role of Soviet Proxies

So far the Soviets appear to have allowed Cuba to assume most of the responsibility for active measures in the region. The other Soviet proxy in the region is Nicaragua. There is evidence that some Cuban operations are conducted independently.

one reason for the lack of close Soviet-Cuban cooperation on active measures is that the comparatively informal Cuban approach to such operations is incompatible with the

¹ For a definition of *active measures*, see the inset on this page.

Active Measures: A Definition

The term active measures is a translation of the Russian phrase aktivnyye meropriyatiya. Although it does not include paramilitary operations, it covers a broader range of activities than the US term covert action. It refers to certain campaigns undertaken by the intelligence services or other institutions of the Soviet Government and Communist Party in support of foreign policy objectives. Distinct from information gathering and counterintelligence, active measures constitute an unconventional adjunct to traditional diplomacy; they are an offensive (that is, "active") instrument of Soviet foreign policy and include:

- Forgeries.
- Oral and written disinformation.
- Manipulation of the local media.
- Use of local Communist parties and front organizations.
- Manipulation of mass organizations and non-Communist political parties.
- Clandestine radiobroadcasting.
- Destabilizing economic activities.
- Military deception or threats.
- Use of agents of influence.
- Other political influence operations.

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The concept of active measures does not encompass overt Communist propaganda. Similarly, we do not consider as active measures press placements which are clearly pro-Soviet and explicitly attributed to TASS, Novosti, or other Soviet institutions or personnel. Although some past analysis has employed a somewhat broader definition, the term active measures in this study refers to deceptive Soviet attempts to influence policies of foreign governments and the political opinions of both governments and publics.

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more centralized Soviet style. Whereas Soviet active measures policy is formulated at the highest levels of the party and strictly followed by officers abroad, Cubans in the field have much more freedom to improvise operations. []

[] Castro does not wish to appear a "mouthpiece" for the USSR should an operation backfire. []

The Sandinistas use techniques similar to those of the Cubans and have independently established international solidarity and front groups, such as the Anti-Imperialist Tribunal of Our Americas, to elicit support for Nicaragua and to promote criticism of US policies in Latin America. Managua also originates and repeats disinformation about US activities to complement the efforts of such groups. In December 1983, for example, the Sandinistas reprinted a story alleging US use of chemical weapons during the intervention in Grenada. []

Nonetheless, the independent active measures operations of Cuba and Nicaragua are almost always in accordance with Soviet interests in Latin America. In the Soviet view, these operations are perhaps sufficiently numerous and effective to allow the Soviet Union to devote most of its own active measures resources to other continents. []

Soviet Activities

In Latin America, Moscow undertakes active measures both in coordination with Havana and on its own. There is evidence, for example, []

[] of close coordination between the Soviets and Cubans in planning active measures aimed at supporting the insurgents in El Salvador. []

An examination of those active measures that Moscow conducts for itself suggests that the Soviets distinguish between at least two groups of countries when planning such operations in Latin America. In 1982 the chief of the Foreign Policy and International Relations Department of the USSR's Latin America Institute, Anatoliy Glinkin, stated that the "key" countries of the region are "Brazil, Mexico, Argentina" followed by "the countries of the so-called second echelon: Colombia, Venezuela, Peru." []

The evidence suggests that, in the key countries of Brazil, Mexico, and Argentina, Moscow prefers to maintain correct relations because it has important interests at stake, especially that of improving bilateral trade. Since active measures play a minimal role in achieving this objective and since the exposure of any covert operation could damage state-to-state relations, the Soviets largely avoid activities that entail this risk. Nonetheless, the Soviets are willing to conduct active measures in the key countries in certain circumstances. During the Falklands campaign, for example, a forged US Defense Department document was surfaced—probably by the Soviet Union—that aimed at worsening US-Argentine relations. In Mexico, the USSR uses international and local fronts to push pro-Communist, anti-US lines. []

In the "second echelon" nations the Soviets appear even more willing to undertake such operations. Their efforts, however, are largely confined to supporting pro-Moscow leftist parties—extensively in Peru, for example—and attempting to covertly stage anti-US demonstrations. Moscow also tries to cultivate assets in the local media. In other countries, including Suriname, Jamaica, Ecuador, and Costa Rica, the USSR makes use of disinformation, press placements, and other active measures. []

Effectiveness of Soviet Active Measures

Soviet active measures in Latin America have several advantages, including the chance to capitalize on the open exchange of ideas characteristic of free societies. In these countries Moscow can readily identify groups that can be exploited or manipulated and disseminate Soviet views through a variety of channels. In promoting its objectives, Moscow typically employs certain standard themes. First, it continually boasts that the Soviets have no colonial tradition in the Western sense. Moscow attempts to use this supposed anti-colonial history to present itself as the defender of the "oppressed" nations of the world. Moreover, much of Soviet propaganda in Latin America is aimed at contrasting Soviet behavior with the alleged excesses of past and present US "imperialism" in the region.

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To a limited degree, this image of a benevolent USSR and an evil United States is accepted in some Latin American circles. [redacted]

These advantages notwithstanding, Soviet active measures efforts in Latin America are impeded by other characteristics of the operating environment. The most important of these is that Communist ideology in general and Soviet atheism in particular do not serve to advance Moscow's influence in this overwhelmingly Catholic region. Moreover, Moscow apparently is sensitive to the risk that exposure of any active measures operations in these relatively open societies could contradict the "peace-loving" image that Moscow tries to project through the more conventional instruments of its foreign policy program for Latin America. Exposure could damage more fundamental Soviet objectives than those served by particular active measures programs. [redacted]

It is difficult in any event to evaluate the scope and effectiveness of Soviet active measures in this or any other region of the world. Our knowledge of these operations is incomplete, and, more important, the best active measures—like the "best" examples of currency counterfeiting—are those that go undetected. Also, since active measures are carefully coordinated with other foreign policy instruments, it is difficult to discern the exact degree of influence of a particular operation. Assessing the effectiveness of Soviet efforts of this sort is particularly difficult in Latin America because of the generally low-key nature of the initiatives. Many are of the "gray" variety, such as making attributed press placements and providing overt guidance of local Communist parties.

[redacted]

The impact of Soviet active measures in Latin America is mixed. Those of the gray variety often have little or no impact owing to the lack of credibility accorded to the Soviets generally and to certain Latin American media vehicles and political organizations that peddle the Soviet line. Others, such as Moscow's active measures support of the Salvadoran insurgency, have indeed furthered Soviet foreign policy objectives.

However, as much as Moscow attempts to mitigate it, the prevailing perception in many less developed countries is simply that the USSR—as a superpower—is bent on furthering its own aims at the expense of less powerful nations. [redacted]

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Outlook

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Soviet Economic Relations With Latin America

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Soviet economic ties to Latin America have expanded rapidly in recent years, but the trade relationship has been mainly one sided. Moscow turned to the region for essential agricultural commodities to offset domestic shortfalls, and growth in trade with the USSR has become a highly profitable venture in the last few years, especially for Brazil and Argentina. The USSR has enjoyed only limited success in expanding its exports to the region, however, even when goods were offered on favorable terms.¹

Emerging Trade Patterns

Soviet trade with Latin America has always been unbalanced, with imports exceeding exports by a wide margin. Since 1979 this imbalance has grown as sharp increases in Soviet purchases of agricultural products from the region have resulted in large Latin American trade surpluses (see table 1). The ability of Latin American countries to supply Moscow with large quantities of desired agricultural products ensures that the region plays an important role in total Soviet trade with the less developed countries (LDCs). The region has accounted for 18 to 26 percent of the USSR's trade with LDCs in the last several years but only 2 to 3 percent of global Soviet trade.² This trade has been highly concentrated, however, with Argentina and Brazil now accounting for roughly 90 percent of total Soviet-Latin American trade.

Agricultural Imports Dominate. The USSR's attitude toward Latin America as a supplier of agricultural products has changed radically since 1979. Prior to that time, Latin America was largely a residual

¹ Moscow's economic relations with the Marxist regimes in Nicaragua and Cuba differ from those with other Latin American countries and are discussed in separate articles. Trade statistics in this article do, however, include trade with Nicaragua.

² The importance of these economic ties is understated because Soviet trade statistics do not include all Latin American trade partners or all transactions. Significant Soviet imports such as bauxite and alumina from Jamaica and sugar from the Dominican Republic are not reported in Soviet data. Soviet reporting also excludes oil swap deals with Venezuela whereby Caracas supplies Cuba with oil while Moscow meets some of Venezuela's commitments to European customers.

supplier to the USSR, supplementing imports from the major Western exporters, particularly the United States. The January 1980 US partial embargo on exports of grain and other agricultural products to the USSR forced Moscow to look to other suppliers for essential agricultural imports. Consequently, the USSR's imports of these commodities from Latin America rose dramatically, pushing total imports from less than \$800 million in 1979 to over \$4 billion just two years later (see table 2). Argentina, which had previously provided 10 percent or less of total Soviet grain imports, supplied 36 percent of total Soviet imports in 1981 and 23 percent in 1982. To assure access to guaranteed supplies of essential commodities, Moscow has signed Long-Term Agreements (LTAs) with both Argentina and Brazil for the purchase of grain, meat, soybeans, soybean meal, and other farm commodities.

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Total Soviet imports from Latin America have tended to fluctuate over time because imports of agricultural commodities are used to supplement domestic agricultural production and to compensate for domestic production shortfalls. Following years of poor domestic agricultural production—such as 1972, 1975, and 1979-81—imports increased. Conversely, when domestic production improves, imports seem to fall fairly quickly. Improved domestic agricultural output in 1982, for instance, allowed the USSR to reduce imports that year to a level 40 percent below that for 1981. We do not expect Soviet purchases to increase in 1984, but Moscow's desire to retain diversified sources of agricultural imports, especially for grain, ensures that the USSR's purchases from Latin America will continue to be sizable.

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In contrast to the robust trade that has developed in farm products, imports of nonagricultural commodities account for only 2 percent of total Soviet purchases from the region. Most of these imports consist of raw materials—primarily tin from Bolivia and lead

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Table 1
USSR: Trade With Selected Latin American Countries,
1970-82

Million US \$

	1970		1975		1980		1981		1982	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total non-Communist LDCs ^a	1,183	1,241	2,649	4,089	5,306	7,667	6,587	10,450	7,340	9,118
Latin America	9	79	204	1,067	155	2,293	146	4,207	396	2,497
Argentina	2	31	15	408	47	1,790	43	3,297	38	1,746
Brazil	3	23	130	421	34	389	23	742	248	573
Peru	NEGL	NEGL	39	125	5	16	18	31	20	15
Bolivia	0	3	4	13	8	31	14	13	4	26
Nicaragua	NA	NA	NA	NA	NEGL	8	7	8	51	8
Other	4	22	16	100	61	59	41	116	35	129

^a Excludes Soviet exports to the LDCs which are not specified by country; these are believed to consist largely of arms. Thus the actual level of trade with both Latin America and all LDCs is understated.

Source: Official Soviet trade statistics.

and zinc from Peru. Despite repeated claims that Moscow provides a market for LDC exports of non-traditional commodities, imports of manufactured commodities are almost negligible. They were under \$30 million in 1982 and consisted almost entirely of steel products from Argentina and Brazil and chemicals from Argentina. In contrast, 17 percent of Latin American exports to the Developed West in 1982 consisted of manufactured commodities including a 7-percent share for exports of machinery and transport equipment. []

In the last few years, Soviet officials have expressed some interest in the purchase of Latin American manufactured goods but have yet to follow up with large purchases:

- Small starting devices manufactured in Brazil are being used on the Siberia-to-Western Europe gas pipeline.
- The Soviets have expressed interest in Mexican oil technology.

- Brazilian firms are to participate with the Soviets in the construction of the Kapanda Dam and hydro-power station in Angola.

In the past, the Soviets have shown a preference for purchasing from established trading partners. Consequently, if the recent signs of interest in Latin American sources of manufactured commodities are translated into large or sustained purchases, it would be a marked departure from past practices. []

Slow Export Growth. In contrast to imports, Soviet penetration of Latin American markets has remained small, accounting for only about 5 percent of reported Soviet exports to LDCs.³ Equally important, Soviet exports to Latin America have fluctuated considerably since the early 1970s, largely in proportion to the

³ A large share of reported Soviet exports to the LDCs is not specified by partner country. If this residual—believed to be largely arms exports—were included, the share of Latin American trade in total Soviet exports to the LDCs would be in the range of 3 to 4 percent because the region is only a minor recipient of Soviet arms exports. []

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Table 2
USSR: Imports From Latin America

Million US \$

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Total	79	1,067	869	657	772	796	2,293	4,207	2,497
Agricultural products	72	995	806	528	656	688	2,142	3,933	2,350
Grain	0	417	277	70	313	219	1,163	2,384	1,184
Soybeans and soybean meal	0	89	330	145	7	21	210	576	418
Sugar	0	259	0	0	0	15	169	130	145
Meat	0	33	4	42	0	66	232	320	154
Manufactured commodities	4	12	17	30	16	32	26	41	28
Raw materials	3	43	33	55	68	53	31	51	41
Other	NEGL	17	13	44	32	23	94	182	78

Source: Official Soviet trade statistics.

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level of oil exports to Brazil (see table 3). Although exports of machinery and equipment have grown substantially since 1970, their total value remains small. Such exports amounted to only \$126 million in 1982, up from \$61 million in 1975 and \$4 million in 1970. Moscow has been most successful in selling electric power generating equipment to the region—one of the few items of Soviet equipment competitive with that of Western suppliers. Aside from power projects, the only other major Soviet sale was for construction of tin-processing facilities in Bolivia. []

Moscow usually offers attractive trade credits to facilitate its exports of machinery and equipment, but these have been largely unsuccessful in Latin America. Agreements with Argentina, Brazil, Peru, Bolivia, Colombia, and Mexico have set the general terms for credits extended on Soviet sales of machinery and equipment. Generally, these agreements set credit terms of up to 10 years for repayment at interest rates of 4.5 percent for state organizations and 5 percent for private firms with a 15-percent downpayment. Although these terms are not as favorable as those offered for many of the USSR's economic aid projects with other LDCs (10 to 12 years at 2- to 3-percent interest with little or no downpayment), they are more favorable than most credits obtainable from Western commercial sources. []

In contrast to Soviet trade with the LDCs as a whole, military exports have played only a minor role in Moscow's Latin American trade. Between 1971 and 1982, deliveries of military equipment to Latin America accounted for only 2 percent of total Soviet military deliveries. In value terms, military sales totaled \$1.2 billion in this period. Peru and Nicaragua are Moscow's only non-Communist clients in the region. Moscow has had to sweeten its arms deals with low prices, sophisticated equipment, and attractive financing. Peru, for example, has received 10-year credits at 2-percent interest, and Moscow has twice rescheduled Peruvian military debt, most recently in September of last year. []

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Moscow is aware, nonetheless, that Latin America is potentially a lucrative market for its arms exports and has actively attempted to expand its sales. []

[] But military establishments in the region are wary of Soviet motives, and

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Table 3
USSR: Exports to Latin America

Million US \$

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Total	7	204	157	221	139	114	155	146	396
Machinery and equipment	4	61	38	61	83	83	92	87	126
Petroleum and petroleum products	NEGL	123	93	130	28	NEGL	NEGL	NEGL	233
Other	3	20	26	30	28	31	63	59	37

Source: Official Soviet trade statistics.

Moscow will find it difficult to make substantial inroads into this market.

Soviet success in expanding exports to Latin America, however, is likely to be limited. The poor quality of most Soviet machinery and equipment and dissatisfaction with past Soviet performance make most Latin American businessmen reluctant to do business with the USSR.

Uncertain Future Directions

The LTAs which the USSR has concluded with Argentina and Brazil are scheduled to expire at the end of 1985 and 1986, respectively, and discussions for new agreements could begin in the near future. With a new, larger LTA with the United States, Moscow would appear to be in a good position to press for a more balanced exchange with Argentina and Brazil. The USSR in mid-1983 rejected an Argentine request to increase the LTA commitment level on grain deliveries.

Such attitudes indicate that trade with Latin America will continue along past patterns; that is, it is likely to be more favorable for the Latin American countries than for the USSR. Soviet economic ties with Latin America are unlikely to expand much for the remainder of the 1980s, unless substantial Soviet harvest shortfalls force Moscow to increase agricultural imports on a scale similar to the record 1981 level.

Soviet demands that Brazil and Argentina increase purchases of Soviet goods, particularly machinery and equipment, to reduce the trade surpluses will probably be the crucial element for any trade discussions, including negotiations for new LTAs. Moscow has implied that future Soviet purchases are contingent upon increased Brazilian and Argentine purchases. This stance has already had some success. In 1982, Brazil resumed buying of Soviet oil, and, according to US Embassy sources in Buenos Aires, Argentina is actively directing purchases by government enterprises and agencies to the USSR and Eastern Europe.

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Soviet Economic Aid to Cuba: Patterns and Prospects

Moscow's commitment to sustain a troubled Cuban economy has led in recent years to rapidly rising economic costs for the USSR. Soviet economic support of Cuba—trade subsidies, development aid, and balance-of-payments assistance—totaled an estimated \$4.1 billion in 1983. Since 1960, the cost has been equivalent to nearly \$33 billion, making Cuba the largest recipient of Soviet aid. Moscow also helps Havana by paying hard currency for some of its purchases of Cuban sugar and other commodities. In addition, as Cuba's principal trading partner, Moscow supplies Havana with a large share of imported food, oil, and capital goods.

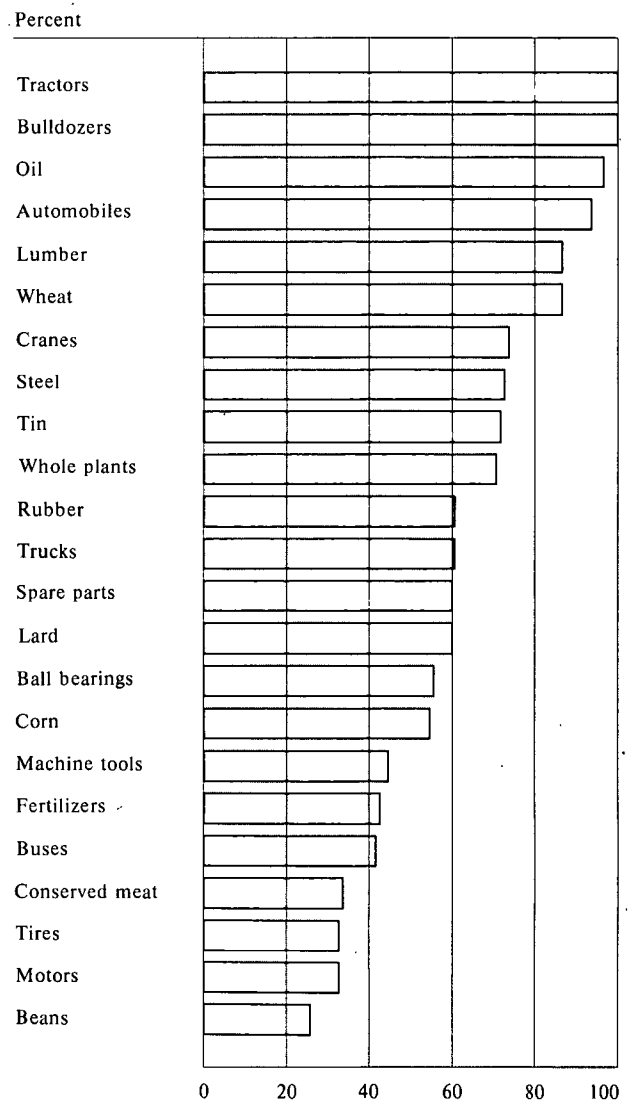
The Soviet Trade and Aid Record

Cuba depends on the Soviet Union for 60 to 70 percent of its total trade. Moscow supplies Havana with nearly all of its crude oil, petroleum products, grain, and lumber, and much of its industrial, agricultural, and transport equipment (see figure 1). In turn, Cuba exports one-half its sugar crop as well as the bulk of its nickel and citrus production to the USSR. Nearly all of this trade is conducted in soft currency through a bilateral clearing account.

Trade subsidies—totaling about \$23 billion since 1960—are the principal component of Soviet aid to Cuba; Moscow pays artificially high prices for Cuban sugar and nickel while pricing its oil exports to Cuba below world market levels (see table 1 and figure 2). The general pricing formula established in Cuba's current five-year (1981-85) trade agreement with Moscow is designed to maintain the purchasing power Havana had in the mid-1970s—a period of high world sugar prices and relatively low oil prices—by adjusting the "price" of Cuban sugar upward as the price for Soviet oil automatically increases. In 1983 the USSR paid almost six times the world market price for the more than 3 million tons of sugar it bought from Cuba and charged Havana about 15 percent less than the OPEC benchmark price for oil.

Figure 1

Cuba: Imports From USSR as a Share of Cuban Consumption, 1980



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Table 1

Million US \$

USSR: Estimated Economic Assistance to Cuba ^a

	1961-83	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Total	32,992	338	1,064	1,569	2,270	2,946	3,178	3,463	4,438	4,561	4,100
Development aid ^c	9,555	295	150	185	230	329	459	830	1,415	975	1,000
Trade subsidies	23,437	43	914	1,384	2,040	2,626	2,718	2,633	3,023	3,586	3,100
Sugar ^d	16,600	-408	577	989	1,638	2,427	2,324	1,165	1,366	2,580	2,800
Petroleum ^e	6,592	411	310	374	378	164	381	1,480	1,657	1,006	300
Nickel ^d	245	40	27	21	24	35	13	-12	0	0	0

^d Sugar and nickel subsidies are estimated as the difference between the price Moscow pays for these commodities and their world market value. The difference is considered a grant and not subject to repayment.

^e The petroleum subsidy reflects the difference between the value of petroleum purchased from the USSR and the value of these imports at world market prices. It is considered a grant and not subject to repayment.

Another major category of Soviet aid—totaling nearly \$10 billion since 1960—consists of development assistance and favorable credits to finance Havana's trade deficits with the USSR. Both directly and through the Council for Mutual Economic Assistance (CEMA), which Cuba joined in the early 1970s, Moscow provides materials, equipment, and advisers for projects relating to export development and import substitution. This aid comes in the form of long-term credits (up to 25 years) at no more than 4-percent interest with grace periods for repayment of up to 10 years. [] over 200 projects valued at 1.2 billion rubles (\$1.7 billion) were completed during Cuba's first five-year plan (1976-80). We estimate that plants built or modernized with Soviet assistance since Castro took power in 1959 account for 100 percent of the output of sheet metal, 95 percent of steel, 50 percent of fertilizers, and 40 percent of the electricity generated in the country. Moreover, that part of Cuba's annual ruble trade deficit with the USSR not covered by development credits is financed on favorable terms. []

Moscow also helps Havana by purchasing some Cuban sugar and other goods for hard currency and by making hard currency purchases of grain that is then

resold to Cuba. These payments, which totaled nearly \$5 billion in 1961-83, were especially high in 1981 and 1982 (see table 2). Soviet outlays dropped in 1983 because the poor sugar harvest prevented Cuba from making any hard currency sales of sugar to the USSR. In any event, without these substantial cash infusions, Cuba would be having even more difficulty managing its hard currency position than it is currently. []

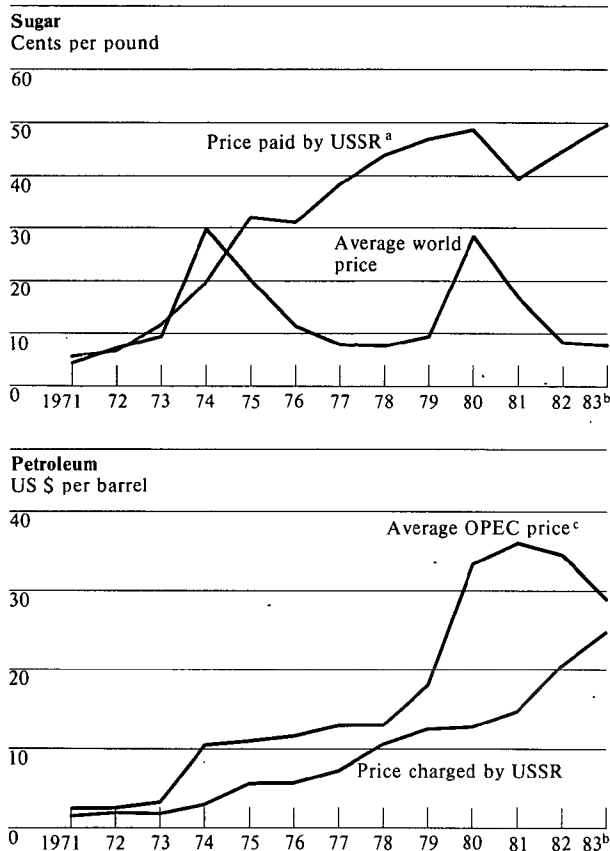
Limits to Soviet Support

For the most part, the levels of trade and aid the USSR has agreed to provide Cuba through 1985 have already been established as part of the five-year trade agreement. We believe Moscow is likely to meet the basic commitments set out in this agreement, but we doubt that it will do much more than this. Unless Cuba's economic position deteriorates as a result of natural disasters or Western-imposed sanctions, Moscow probably will look for ways to make Cuba a less expensive client. The Soviets are reportedly irritated with Cuba's inefficient use of resources. []

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Figure 2
Cuba: Subsidized Versus World
Market Prices, 1971-83



^a Includes only soft currency sugar purchases.

^b Preliminary.

^c Based on crude product ratio of 60 to 40.

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[redacted] Moscow apparently has been pressing Havana to meet soft currency sugar contracts even at the expense of hard currency sales to the West. The Soviet stance reportedly forced Cuba to

make hard currency sugar purchases in late 1983 and early 1984 to fulfill its soft currency sugar contracts with the USSR. [redacted]

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Soviet trade subsidies to Cuba will probably decline slightly to a level of \$3-4 billion annually by 1985, primarily because of the way Moscow and Havana price their trade. In particular, the price Cuba pays for the approximately 200,000 b/d of oil imported from the USSR is based on a moving average of the world price of oil over the previous five years. The recent softness in the world oil market means the subsidy could be eliminated by 1985. Because sugar prices, in turn, are linked to oil prices in Cuban-Soviet trade, the price Moscow pays for Cuban sugar is likely to increase by only a few cents per pound. If world sugar prices rebound from the low levels of the past two years, this subsidy could even be reduced.

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In contrast, the level of development and general balance-of-payments assistance provided by the USSR will be somewhat higher in 1984 and 1985. According to public statements by Soviet officials, project aid was scheduled to rise by 80 percent during 1981-85 to roughly \$3 billion. Important aid projects include a nuclear power plant that will decrease Cuba's oil needs by about 10 percent in the late 1980s and a new plant that will double Cuba's output of nickel. In addition, Cuba's soft currency trade with the USSR is likely to remain in deficit—probably on the order of \$500 million annually—through 1985, and Moscow will have to continue to provide favorable financing. [redacted]

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[redacted] repayments of Soviet development aid are scheduled to begin in 1985. Havana may be able to expand its exports enough to make the \$125 million payment that falls due to the USSR that year, but the problem will worsen in 1986 when the grace period on Cuba's recently rescheduled hard currency debt due to Western creditors expires. We believe Havana is likely to give these latter debts priority to preserve its reputation for honoring commitments to the West. In this event, Moscow may have little choice but to agree to reschedule, or perhaps even forgive, Cuba's debt. [redacted]

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Table 2
USSR: Estimated Hard Currency Support to Cuba ^a

Million US \$

	1961-83	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Total	4,864	123	601	343	546	290	356	375	703	773	450
Soviet sugar purchases	1,525	0	424	159	223	126	134	0	168	291	0
Grain/flour exports	2,605	123	174	173	216	133	213	234	319	266	250
Other ^c	734	0	3	11	107	31	9	141	216	216	200

Moscow's hard currency contribution to Cuba will remain at about \$450 million in 1984, then return to \$700-800 million in 1985, assuming a recovery in sugar production. Cuban trade projections indicate that Soviet hard currency purchases in the category of unspecified goods will continue at the 1982 level of \$200 million annually through 1985. Part of this amount, however, could represent supplemental incentive payments for petroleum Cuba did not consume.

the Cuban press, reported that a 1981 agreement offered Havana convertible currency payments for oil saved from its protocol allotment. This Soviet incentive, which is unique to its trade with Cuba, probably represents an effort to lessen Havana's energy dependence without imposing the hardships of major cuts in oil shipments. In addition, Soviet hard currency grain purchases on Cuba's behalf will probably remain close to current levels over the next two years. Since 1981 the USSR has been transshipping more than 1 million tons of Canadian grain to Cuba. The Soviets may encourage Cuba to use its \$70 million Argentine credit line for corn purchases in order to decrease Moscow's burden.

The expected decline in Soviet aid in 1984 and 1985 could cause problems for the Cuban economy by forcing Havana to slow the growth of its imports from the USSR. The volume of Soviet oil deliveries has been leveling off in the past few years, and, if it should remain at the 1983 level, economic activity could be

affected. Moreover, imports of consumer and capital goods not connected to certain Soviet-funded projects will probably increase less rapidly than Havana would like, and growth beyond 1984 could slow, especially if investment projects have to be delayed.

Prospects for Continued Aid

We believe that Moscow will continue to provide large amounts of aid to Cuba as long as Cuba reciprocates with the kind of political and military benefits it has provided in the past. Havana has been a valuable ally in assisting the USSR in its Third World policies, providing Cuban military personnel for sponsoring and preserving pro-Soviet regimes, and playing an important supporting role in the Sandinista victory in Nicaragua. Castro has promoted the USSR's political position on various international issues, and Cuba continues to afford the Soviets valuable military facilities in the Western Hemisphere. As long as Castro's position is not endangered by sharper economic difficulties than we now foresee, we believe he will continue to be valued for the benefits he can provide. Nevertheless, the Kremlin has made it clear to the Cubans that there are limits to Soviet largess, and we believe that, unless the pricing formulas used in Soviet-Cuban trade are altered, the annual aid flows will decline slightly over the next two years.

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USSR-South America: Looking Ahead

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[redacted] Soviet media commentary suggest Moscow remains pessimistic about the prospects for revolutionary change in South America. In the absence of strong radical South American political movements, the Soviets' principal efforts are directed toward expanding commercial and political ties with key governments. While they continue to back local elements' attempts to undermine pro-US regimes, they will not hesitate to discard local Communists when expedient. Moscow's hopes for expanded influence center on the new civilian governments in Argentina and Bolivia, but its efforts have been hindered by suspicions of Soviet intentions. The Soviets also are wary of challenging US interests in a region where they have few assets and cannot directly employ their military power. [redacted]

The Soviet focus on developing relations with existing governments in South America is based on a pragmatic calculation of commercial as well as political self-interest and an appreciation for the limited strength of the region's Communist parties. Soviet media commentaries indicate that Moscow believes difficult economic conditions—for which many Latin Americans blame the United States—will aid the USSR and local Communist parties in advancing their objectives. Moscow probably also calculates that its low-keyed strategy is less likely to provoke a strong US reaction. [redacted]

Brazil and Argentina

Midlevel Soviet officials late last year characterized Brazil and Argentina as the countries most vital to Soviet interests in South America. [redacted]

[redacted] The USSR will continue to push for a further expansion of its commercial dealings with Brazil—one of its major Latin American trade partners—while counseling the Brazilian Communist Party to work for change within the existing political structure. [redacted]

Moscow has indicated [redacted] that it hopes to make gains in Argentina under the center-left civilian government of Raul Alfonsin. A top-level Foreign Ministry expert on South America told a US diplomat last December that the Soviets expected Alfonsin to broaden relations with the Communist countries and to pursue a more nonaligned foreign policy. The Soviet official seemed particularly hopeful about economic relations, especially in the energy field. The Soviets have long been pushing for participation in large energy projects in Argentina as one way to redress the huge trade imbalance resulting from Moscow's large grain purchases. [redacted]

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Bolivia

The Soviets are also working to build their influence in Bolivia, capitalizing on Communist participation in the leftist government of President Siles. [redacted]

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Moscow would like to regain the position it lost in Chile with the fall of Allende but appears to believe that its only option is to wait for domestic opposition to increase to the point where it will bring down the Pinochet regime.

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Peru

The Soviets want to ingratiate themselves with either a civilian or military government in Peru. They have used arms sales as the entree with the military. Suspicion of Soviet motives and dissatisfaction in the military with the quality of Soviet equipment have produced frictions in the relationship, but the Soviets have been careful not to provide Lima a pretext for severing ties. They have distanced themselves from the radical left and are broadening their contacts with the establishment parties. Soviet diplomats in Lima have been cultivating the leaders of the American Popular Revolutionary Alliance (APRA), the moderate leftist coalition party.

Outlook

Moscow's position in South America will continue to depend less on its own actions than on local developments and US policies. The Soviets will continue to look for low-cost opportunities to exploit anti-US sentiments but will remain reluctant to commit important economic or military resources to the region because indigenous radical movements remain weak. They probably expect to expand commercial ties with Argentina, Brazil, and other states, but Peru is likely to remain for some time the only significant customer for Soviet arms on the continent.

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Targets of Opportunity

While still open to low-cost opportunities in South America, the Soviets have moved cautiously since the US action in Grenada. The leadership conflict in Grenada that precipitated the US move probably made them more skeptical of becoming involved with self-proclaimed Marxist states that lack internal strength or cohesion. For example, Moscow thus far has shown no signs of providing Suriname and Guyana the support they want. Instead, the Soviets have focused on low-level, relatively inexpensive efforts to develop long-term influence in both countries.

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Other Topics

The USSR's Favorable Hard Currency Position

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Soviet trade data for 1983 indicate that the USSR held its hard currency borrowing last year to a minimum despite a fall in oil prices. This was achieved by holding down import growth, maintaining a high level of military deliveries to the less developed countries (LDCs), and increasing the volume of oil exports enough to offset the drop in prices. Thus, the net hard currency debt remained at about the \$10 billion level (see table 1). Moscow's hard currency position is likely to remain good at least through 1984.

Background

Moscow has successfully pursued a policy of limiting its hard currency debt since 1976 after a surge in borrowing to finance imports of Western technology and equipment caused its payments position to deteriorate. The USSR slashed imports of Western equipment—which in real terms fell by one-fifth between 1976 and 1980—and benefited from spiraling world prices for its oil exports. Thus, the Soviets were able to limit borrowing in spite of sizable increases in agricultural imports in 1979-80.

In 1981, however, Moscow was hit by even greater agricultural import needs and stagnating oil prices. As a result, the trade surplus plunged in spite of another large cut in machinery and equipment imports, and debt rose sharply. Although imports of machinery rose substantially in 1982 as deliveries for the pipeline from Siberia to Western Europe began, Moscow was able to turn its payments positions around by sharply boosting the quantity of oil exported and taking advantage of an improved harvest to reduce agricultural imports.

Current Account

Soviet data show that in 1983 the USSR's hard currency merchandise trade surplus rose more than \$200 million, to \$4.7 billion, as exports and imports grew at about the same rate (see table 2). The small rise in export earnings appears to have been primarily due to a slight increase in the value of Soviet exports of crude oil and petroleum products. We estimate that hard currency oil exports totaled 1.37 million barrels a day in 1983, about 135,000 b/d above the previous record high in 1982. With the average price of crude oil and oil products down about 10 percent, the value of Soviet hard currency oil exports for the year probably remained at about the \$15 billion level of 1982. The rise in the volume of Soviet oil sales was made possible by an increase in oil imports from the OPEC countries in partial payment for past arms deliveries and perhaps by some drawdown of domestic stocks. As far as we now know, the USSR did not again reduce its oil exports to the Communist countries.

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Military exports to the LDCs rose sharply in the first nine months of the year as the USSR moved to resupply both Iraq and Syria with military goods¹ but plummeted in the last quarter. As a result, arms exports—which account for roughly one-fifth of total Soviet hard currency receipts—probably leveled off or even declined. Western data indicate that the value of nonoil, nonmilitary exports such as natural gas, chemicals, and timber were below the 1982 level.

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¹ Syria is considered to be a hard currency customer for arms but not for other commodities.

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Table 1
USSR: Estimated Hard Currency Debt to the West

*Million current US \$
(yearend)*

	1975	1976	1977	1978	1979	1980	1981	1982 ^a	1983 ^a
Gross debt	10,577	14,707	15,609	16,375	18,050	17,865	20,865	20,100	20,400
Commercial debt	6,947	9,662	9,858	9,515	10,480	10,015	13,015	11,500	11,000
Government and government-backed debt	3,630	5,045	5,751	6,860	7,570	7,850	7,850	8,600	9,400
Assets in Western banks	3,125	4,735	4,425	5,975	8,800	8,565	8,425	10,000	10,500
Net debt	7,452	9,972	11,184	10,400	9,250	9,300	12,400	10,100	9,900

^a Provisional estimate.

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Moscow was able to limit the growth of hard currency imports in spite of substantial increases in purchases of machinery, equipment, and crude oil. Soviet hard currency imports of Western machinery and equipment rose roughly 15 percent, with most of the increase coming from France, Italy, and West Germany. Much of the 1983 increase in such imports probably reflects deliveries of equipment contracted for in 1981-82 (see table 3). Among the more important orders in these two years were:

- Roughly \$4 billion worth of compressors and other equipment for the Siberia-to-Western Europe gas pipeline.
 - Some \$600 million in equipment for the Astrakhan sour gas project from French and West German firms.
 - A turnkey steel plant from Austria for \$540 million.
 - A rolling mill, worth \$287 million, from West Germany for the Oskol steel complex.
 - A polyester fiber plant from West Germany for \$290 million.
 - A diazinon insecticide plant from French and West German firms for \$165 million.
 - Two butadiene plants from Japan for \$110 million.
- West Germany, France, Japan, and Italy continued to account for the bulk of the orders. At the same time, the US share of orders dropped from about 10 percent in 1980 to 2 percent in 1982, reflecting US sanctions and Soviet concern about the reliability of the United States as a supplier.

A roughly \$500 million jump in oil imports from Iraq, Libya, Saudi Arabia, and Venezuela, largely in repayment for Soviet deliveries of arms, explains part of the increase in imports. (The oil from Saudi Arabia was in payment for Iraqi obligations to the USSR.) We estimate the volume of these imports at about 190,000 b/d as compared with 145,000 b/d in 1982. In addition, the USSR imported in 1983 about 55,000 b/d of crude oil from soft currency countries (Syria and Iran) as compared with 32,000 b/d the previous year.

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Agricultural imports, on the other hand, may have fallen to \$9 billion or less in 1983, compared with \$10 billion in 1982. Most of this reduction was in imports from the United States. Hard currency imports of grain dropped by an estimated 4 million tons to 32 million tons worth about \$5 billion, and imports of sugar also declined.

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Imports of large-diameter pipe fell last year after increasing substantially in 1982 when construction began on the Siberia-to-Western Europe gas pipeline. Imports of nontubular steel also were down.

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Table 2
USSR: Estimated Hard Currency Balance of Payments

Million current US \$

	1975	1980	1981	1982	1983 ^a
Current account balance	-4,607	1,904	-100	4,083	4,495
Merchandise trade balance	-4,797	1,714	200	4,483	4,695
Exports, f.o.b.	9,780	27,784	27,978	31,977	32,392
Of which:					
Additional military deliveries to LDCs, f.o.b. ^b	1,500	4,200	4,200	5,470	6,010
Imports, f.o.b.	14,577	26,070	27,778	27,494	27,697
Net interest	-570	-710	-1,300	-1,500	1,300
Other invisibles and transfers	760	900	1,000	1,100	1,100
Capital account balance	6,522	1,630	5,840	-1,240	550
Gross drawings ^c	6,371	2,865	6,200	2,650	3,900
Government backed	1,972	2,195	2,000	2,850	3,100
Commercial	4,399	670	4,200	-200	800
Repayments	969	3,050	3,200	3,415	3,600
Government backed	730	1,915	2,000	2,100	2,300
Commercial	239	1,135	1,200	1,315	1,300
Net change in assets held in Western banks	-395	-235	-140	1,575	500
Gold sales	725	1,580	2,700	1,100	750
Net errors and omissions ^d	-1,915	-3,534	-5,740	-2,843	-5,045

^a Preliminary estimate.

^b These estimates exclude the value of arms-related commercial exports included in the reporting on Soviet exports to individual LDCs, which we estimate at about \$2 billion in 1982. They are based on the reported export residuals in published Soviet data on trade with LDCs (that is, the difference between Soviet reported aggregate exports to the LDCs and Soviet reporting on exports to individual LDCs). The export residuals were reduced by the estimated value of Soviet exports of major arms systems to soft currency LDCs on an f.o.b. basis. The estimates exclude the value of follow-on services, which may be substantial.

^c Including additions to short-term debt.

^d Reflects hard currency assistance to other Communist countries, hard currency trade with other Communist countries, hard currency credits to LDCs to finance Soviet sales of machinery and equipment (including military equipment), credits to developed Western countries to finance sales of oil and other commodities, and errors in other line items of the accounts.

With a total hard currency trade surplus of \$4.7 billion and net expenditures on interest and other invisibles at about \$200 million, the USSR realized a current account surplus of \$4.5 billion, about 10 percent higher than in 1982. Gold sales—which hit 200 tons valued at \$2.7 billion in 1981—probably totaled about 55 tons worth an estimated \$750 million as Soviet financing needs remained small.

The “errors and omissions” category rose substantially, in part reflecting increased credits and deferred payments to cover military and other sales to the LDCs.² Moscow also apparently rescheduled some

² This category represents the residual after all of the hard currency items are added up and net financing received is taken into account.

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Table 3
USSR: Equipment Orders Placed With Hard Currency
Trading Partners

Million current US \$

	1975	1976	1977	1978	1979	1980	1981 ^a	1982	1983 ^b
Total	4,650	6,000	3,800	2,800	2,675	2,600	6,870	3,745	2,100
Oil and natural gas projects	525	1,700	300	825	190	400	4,320	1,330	810
Other projects	4,125	4,300	3,500	1,975	2,485	2,200	2,550	2,415	1,290
Of which:									
Chemical and petrochemical equipment	1,660	1,020	1,630	700	610	410	465	505	365
Metalworking and metallurgical equipment	305	1,820	640	350	935	805	590	800	225

^a The total for 1981 includes about \$4 billion in orders for the gas export pipeline project. Some of this—such as pipelayers—is included under categories other than oil and natural gas equipment.

^b Because of lags in reporting, information for 1983 is not complete.

LDC debt. According to press reports, for example, the USSR agreed in September 1983 to allow Peru to postpone for six years repayment of \$167 million due in 1983. []

Financing

Moscow probably was able to reduce its net hard currency debt slightly in 1983. (It had fallen by \$2.3 billion in 1982.) Although the USSR's net liabilities to commercial banks rose by more than \$1 billion in the first nine months of the year, mainly due to a \$1.5 billion drop in Soviet assets, it is likely that as in previous years the USSR sharply boosted its assets in the last quarter of the year. The Soviets apparently are reluctant to end a year with bank deposits equivalent to less than four months of imports. []

Assuming the fourth-quarter growth in assets approximated the \$2.6 billion increase in the last quarter of 1982, Soviet assets would have hit a record \$10.5 billion by the end of 1983, up from \$10 billion at the end of 1982. Gross commercial debt—which declined slightly in January-September—could well have remained below the yearend 1982 level. Western-government-backed debt, on the other hand, probably rose as machinery and equipment imports continued to rise. Thus, total gross debt is estimated to have

increased somewhat to \$20.4 billion, whereas net debt, because of the probable increase in assets, is estimated to have dropped slightly to \$9.9 billion. []

Outlook for 1984

Moscow's favorable hard currency position is likely to continue at least another year. The 1984 foreign trade plan announced last December implies that for the second year in a row Moscow intends to reduce trade with the West—perhaps by as much as 10 percent. Although the USSR probably will not achieve the reduction in imports from the West implied in the plan, we believe it will—barring a bad harvest—be able to hold the line or even reduce hard currency imports in 1984. Agricultural import requirements could remain at about the 1983 level if the harvest is fair to good this year. []

Purchases of Western machinery and equipment could level off or decline. Although substantial deliveries of equipment for projects contracted for in the past few years are still to be made, deliveries for the Siberia-to-Western Europe gas pipeline are virtually

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completed. Ongoing negotiations for Western equipment for the Tenghiz natural gas facility are unlikely to be concluded soon, ruling out sizable deliveries this year. Moreover, orders for nonenergy equipment fell in 1983 to \$1.3 billion—not much more than half the average for 1979-82. Soviet purchases of large-diameter pipe are unlikely to increase unless additional pipeline construction is initiated. The Soviets may be aided in holding down imports of pipe by bringing on stream their first domestic facility for producing large-diameter pipe. [REDACTED]

On the export side, Moscow could well experience some difficulties. Net hard currency oil sales are likely to level off, or even decline somewhat, as domestic production stagnates and deliveries to Eastern Europe remain high. In fact, since the beginning of the year the Soviets have reneged on some shipments of oil to Western Europe. [REDACTED] suggests the USSR, which reduced oil exports to Eastern Europe in 1982, will not make further cuts for the time being. Although exports of natural gas could increase as deliveries begin through the new pipeline, other commodity exports are likely to show little if any growth in 1984. In a number of industries (for example, nonferrous metals and timber), domestic production is stagnating and domestic requirements are rising, reducing the exportable surplus. [REDACTED]

Even if hard currency exports stagnate or drop somewhat and a poor agricultural year necessitates higher imports than now foreseen, the Soviets can manage. With substantial gold reserves—estimated in excess of \$20 billion at current prices—and production running in excess of consumption and exports, Moscow could cover a sizable portion of its financing requirements through increased gold sales should the need arise. Moreover, the USSR has already lined up substantial Western-government-backed and commercial credits to support imports of plant and equipment and large-diameter pipe. [REDACTED]

In addition, after a five-year absence, Moscow has recently made a series of successful forays into the Euromarket. [REDACTED]

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The USSR's New Long-Term Energy Program

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The recently published Long-Term Energy Program of the USSR reflects an ambitious set of objectives and plans for improving all aspects of the energy system. Although the program cites no specific output targets, the trends described indicate rising production. Generalized goals are laid out for energy production, conservation, and substitution and for specific sectors of the economy—machine building and transportation, for example—that support the energy sectors. The importance of continued energy exports is noted, but no goals are stated.

The program, first previewed in mid-1983, was published in March in the economic weekly of the Central Committee of the CPSU, *Ekonomicheskaya Gazeta* apparently after long debate within policymaking circles. Like other recent Soviet plans, it appears to rely heavily on improvements in capital and labor productivity. In view of the economy's poor record in achieving productivity increases since the mid-1970s, we believe that many of the program's goals are beyond reach, although substantial progress can be expected in some energy sectors.

The 20-year program is divided into general objectives for two periods, 1981-90 and 1991-2000. The first phase focuses on energy production, principally oil and gas; the second phase concentrates on energy conservation, interfuel substitution, nuclear power production, and expansion of the coal industry. The principal objectives of the program (in the order they appear, which may give some indication of relative importance) are shown in the inset on page 36.

As is evident from the major points of the program, none of the energy-producing sectors has been neglected. Each of them—oil, natural gas, coal, and electric power—will require an increase in investment. The Soviets, however, have never been able to expand rapidly the output of all energy sectors *simultaneously*. We do not believe they can do so in this program without a substantial increase in investment at the expense of other sectors of the economy—an increase greater than that indicated by the published program.

Oil

The program's references to oil production are somewhat vague. Phrases such as "securing a stable, high level of oil output" and "an increase in liquid fuel" are difficult to translate into output targets.¹ Moreover, there appears to be a major inconsistency between the program's target for drilling and recently discussed goals. The "stable, high" level of production will require, according to the program, a doubling of drilling capacity by 1990 (compared with 1980). But recent Soviet press articles indicate that drilling meterage must double every five years to maintain stable output. This five-year doubling of drilling implies an annual rate of at least 70 million meters in 1990, far more than the 35-40 million meters the energy program suggests.

The program is relying on improving production in existing oilfields by raising well flow rates and ultimate oil recovery through better equipment and technology. A program to improve substantially the operation of the oil ministry's 100,000 wells will be highly capital intensive—with an emphasis on pumping equipment—and require a dramatic improvement in labor productivity. The new energy program also stresses broad introduction of enhanced oil recovery (EOR) methods. The Soviet EOR effort to date has been beset by problems. These projects are expensive, require long leadtimes, must be tailored to individual fields, and yield uncertain results. Current oil production by EOR methods is only about 60,000 barrels per day (b/d). We estimate that by 1990 EOR production will be no more than 200,000 b/d—a substantial gain, but not enough to exert a major influence on the level of Soviet oil production, even by 2000.

Natural Gas

The energy program touts gas as the growth fuel, at least until coal, nuclear energy, and renewable energy sources can begin to take over in the 1990s. Gas

¹ "Oil output" includes gas condensate as well as crude oil, and "liquid fuel" includes an unspecified quantity of synthetic fuel.

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Main Objectives of the Long-Term Energy Program

- *Energy savings through accelerated scientific and technical progress in all spheres of the economy to reduce energy use per unit of economic output.*
- *A speedup of technical progress in machine building and related branches of industry in order to supply the energy branches with the appropriate equipment and materials.*
- *Growth rates for electricity output that are higher than those for primary energy production.*
- *Accelerated development of the natural gas industry to satisfy domestic consumption and export needs.*
- *Provision of a "stable, high level" of oil output partly by increasing the amount of oil ultimately recovered from oil deposits.*
- *"Early preparation" of industrial stocks of fuels, especially oil.*
- *A sharp increase in drilling meterage and a gain in the efficiency of deep exploratory drilling for oil, primarily in the most promising areas.*
- *Assured growth in the supply of motor fuels, mainly through "deeper" refining of oil and a substantial reduction in oil used at electric power stations.*
- *Production of synthetic liquid fuels from gas, coal, and oil shale.*
- *"Forceful" development of nuclear energy for the production of electricity and thermal energy (steam and hot water) to release significant quantities of fossil fuels.*
- *Construction of pumped-storage hydroelectric plants in the European part of the country.*
- *Development of the coal industry, principally through increased output of open pit mines in eastern regions and accelerated construction of large thermal power plants using this coal.*
- *"Economically justifiable coordinated development" of hydroelectric resources in Siberia, the Far East, and Central Asia.*
- *Creation of the technological and material base necessary for the development of new energy sources such as fast breeder reactors and thermonuclear fusion.*
- *Expanded use of renewable energies (solar, geothermal, tidal, wind, and biomass).*
- *Optimal combination of different modes of transport in the European USSR for moving large quantities of energy resources from eastern regions, above all from Siberia where most of the growth in fossil fuel output will take place.*
- *Guarantee of the necessary amounts of fuels and electricity for export, primarily for the solution of energy problems in "socialist" countries but also for "effective participation in the international division of labor."*

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output is to rise to an unspecified maximum level in the mid-1990s and then stabilize. Such production levels will, according to the program, require increases in development and exploratory drilling, construction, and improved equipment. In the 1991-2000 phase of the program, West Siberian fields smaller than those now in production will be developed, and this will

raise investment requirements. The program also raises the possibility of a new West Siberian export pipeline to supply additional gas to Eastern Europe. This pipeline would be built with the participation of East European countries.

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Coal

The Soviet coal industry has been plagued with problems since the mid-1970s. The energy program apparently recognizes the difficulty of quickly raising production and indicates that the first phase (1981-90) will be used to lay the groundwork for an acceleration of coal production in the 1990s. By the end of this century, 56 to 60 percent of Soviet coal is to be produced by open pit mining (mainly in Siberia), compared with 38 percent in 1980. According to the program, the development of Siberian coal mining, particularly in the Kansk-Achinsk basin, will require the expansion of construction organizations and infrastructure, as well as improved mining, transport, and beneficiation equipment. A number of thermal power plants to be built will use Kansk-Achinsk coal. Each will have a total capacity of 6,400 megawatts (MW). Plans also call for a 50-percent increase in coal cleaning plant capacity between 1980 and 2000. All of these efforts will be expensive and will require a higher priority for coal industry investment, which has been nearly stagnant since 1977. []

Electric Power

One of the energy program's main objectives is to guarantee growth rates for electricity production that are higher than those for primary energy production.² We believe this may be, in part, an attempt to eliminate the effect of electric power outages on oil and gas production. To assure strong growth of electricity output, the Soviets intend to:

- Rapidly expand nuclear electricity production.
- Lower the share of oil used to produce electricity through substituting natural gas, constructing nuclear heating plants, using inexpensive coal from open pit mines, and building large hydroelectric plants in eastern regions of the country.
- Complete the country's Unified Electric Power Network, add more plants to generate electricity during peak demand periods, construct ultra-high-voltage transmission lines, and increase the quality (stability of voltage and frequency) of electricity.

² In recent years electricity production has not grown rapidly enough to avoid a strain on available power supplies, particularly in key fuel-producing regions of the USSR, where power shortages and electricity disruptions can significantly affect oil and gas output. []

- Further develop combined heat and power plants.
- Modernize or retire small, inefficient power plants. In the 1981-90 period, plants with a total capacity of 55,000 to 60,000 MW (20 percent of current installed generating capacity) are to be modernized, and, in 1991-2000, plants with a combined capacity of 70,000 to 80,000 MW are to be rebuilt or replaced. []

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The most ambitious of these efforts is the expansion of the nuclear power program. Plans call for the equivalent of 6.3 million b/d of fossil fuel to be replaced by "other energy sources" by the year 2000. Given Soviet expectations for hydroelectricity and unconventional energy sources, we calculate that about 85 percent of this "saving" is expected to come from nuclear power. This implies production of about 1.3 trillion kilowatt-hours (kWh) of nuclear electricity in 2000, 12 times the 1983 level.³ We are currently projecting nuclear electricity output to be less than 300 billion kWh in 1990. We do not believe the Soviets can build enough nuclear power plants to more than quadruple output between 1990 and 2000. []

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Energy Conservation and Substitution

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Despite the many references to energy savings, the basic approach of the program is production oriented. Conservation targets, although significant, represent no improvement from savings of 2 million b/d oil equivalent already on the books for 1981-85. Total annual savings of fuel and energy resources by 2000 are given as 7.6-8.1 million b/d oil equivalent (compared with 1980) or an average of 1.9-2.0 million b/d per five-year period. The program seems to imply that most of these savings will come in the 1990s. []

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To prepare for transferring the Soviet economy to an "energy-conserving development path," the program calls for reducing the "energy intensity" of the economy—as measured by the ratio of total energy consumption to national income—by 12 to 17 percent over the 20-year period. Here again the Soviets do not

³ This total includes the electricity equivalent of the output of nuclear heating plants. []

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show the same optimism associated with expanded energy production. This decline in the energy-to-national-income ratio (as calculated by the Soviets) averages only 0.6 to 0.9 percent per year, compared with actual reductions averaging 1.3 percent annually in 1981-82. []

Energy conservation, however, will not be cheap. The program calls for "massive" production of energy-conserving equipment and equipment for regulating and measuring energy use. Little "conservation equipment" is now produced in the USSR. A nationwide program of intensive energy conservation will require either large amounts of imported equipment or the establishment of new plants to produce this equipment. Either alternative will be expensive. A Soviet energy official has stated that 80 percent of conservation gains will be due to investment. []

Interfuel substitution also plays a role in the energy program. During the 20-year period the energy balance is expected to shift dramatically, principally because of a decline in the use of oil and a rise in the use of coal, nuclear power, and natural gas. The share of electricity produced by oil in thermal power plants—35.7 percent in 1980—is to be reduced by more than half by 1990. We calculate that the Soviets expect to cut annual heavy fuel oil use by about 1 million b/d in 1981-90. Here, too, investment will be required. For example, investment in oil refining will have to rise. The long-postponed investment in cracking equipment needed to boost output of light petroleum products (gasoline, diesel fuel, and jet fuel) by processing the fuel oil displaced by other energy sources will be expensive, and much of this equipment may have to be imported. []

Investment Implications

The energy program estimates that energy's share of total capital investment will average 20 to 22 percent over the 20-year period—a slight increase from the present share. We believe that the Soviets, relying heavily on the achievement of unrealistic productivity goals, have underestimated total investment requirements. The new energy program anticipates that oil investment will continue to grow, while coal, oil refining, machine building, and other relatively neglected branches are to also receive substantial increases in investment. []

We do not believe the Soviets can achieve all of these ends with only a slight increase in the share of investment devoted to energy. Under less demanding conditions in recent years, energy investment has risen rapidly—at an average annual rate of 8.1 percent between 1977 and 1982, compared with total investment growth of only 3.3 percent. Oil investment, which nearly doubled during these years, was a principal cause of the increase. []

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Cuban Civil Defense: The Soviet Connection

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In December 1983 the Chief of USSR Civil Defense, Gen. Aleksandr T. Altunin, arrived in Havana for meetings with top Cuban officials. It was his first known visit to Cuba and underlined previous indications of renewed Cuban interest—and greater Soviet involvement—in the Cuban civil defense program. Havana is refocusing its civil defense objectives and increasing training in an effort to improve the ability of the leaders and the general population to respond to a major military crisis. It is unclear how much the modest but discernible increase in Soviet involvement will improve the effectiveness of the Cuban program, which will depend on both continued internal momentum and on external support. Altunin's visit signals that support probably will be forthcoming in this area.

- In early 1982 the Cubans initiated new island-wide defensive preparations, including a major military bunker construction program and deployment of anti-aircraft batteries. The activities coincided roughly with US and NATO naval exercises in the Caribbean and a marine landing at Guantanamo.

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Recent US actions in Nicaragua and Grenada have further heightened Cuban leaders' concern.

Shift in Cuban Defensive Posture

The Cuban civil defense program, initiated in 1962, is modeled after the Soviets' but is far more rudimentary. Civil defense cadres have been active for many years in the area of public health, but until recently preparations for defending the civilian sector in time of war have been limited.

Since 1980, Cuban leaders have shown increasing concern over a perceived toughening of US attitudes over Cuba's role in fomenting and supporting insurgencies in Latin America:

- In 1980 Havana stepped up its propaganda offensive against the United States, with leadership statements continually stressing the need to improve both military and civilian preparedness. A 600,000-man territorial troop militia was formed for home defense.
- In November 1981 the government sent diplomatic notes to foreign embassies, urging them to take action to prevent US military intervention, and held a major mobilization exercise in Havana. (These actions followed a controversial speech by the Secretary of State and US military maneuvers in the region.)

The Soviet Connection

During the 1960s and 1970s, Soviet support was limited to providing training in the USSR for Cuban civil defense technicians and sending advisers to support the Cuban program. In the 1980s, however, there has been a modest but discernible increase in Soviet

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involvement, highlighted by General Altunin's arrival last December for what Cuban media called a friendly and working visit. It lasted for over a week and included meetings with Fidel Castro and top Cuban military officials. [redacted]

The first indication of this new trend came in 1981, when the chief of Cuban civil defense reportedly traveled to the USSR. Some of the innovations introduced into the Cuban program probably resulted from his consultations. The chief was assigned a new Soviet aide, Col. Petr Orlov, in place of his reportedly ineffective adviser. [redacted]

have made the trip without concrete proposals in mind. We believe the Soviets have trouble financing their own shelter program, however, and probably would not provide substantial funding for a personnel shelter program in Cuba unless they believed that the United States was planning to target Cuba with nuclear weapons. The Soviets are more likely to devote their financial backing to programs for leadership continuity and wartime management, which receive high priority throughout the Soviet Bloc. They probably will also continue to train Cubans to handle medical, evacuation, mobilization, and economic problems. [redacted]

Increased Soviet support of Cuban civil defense may be part of the broader effort to strengthen Havana's military capability. Arms deliveries to Cuba in 1981 were the highest since the Cuban missile crisis of 1962, and military-related support continued to be high in 1982 and 1983. This increase probably was prompted by several factors, including the onset of the new improvement and replacement cycle for the military and a desire to meet Castro's concerns about the perceived US threat. In this context, the civil defense program has the military benefit of helping make an invasion of Cuba a potentially difficult and protracted operation. In a broader context, the program as currently designed is a relatively low-cost venture through which the Soviets could hope to increase their influence throughout the Cuban Government. [redacted]

The effectiveness of these activities is hard to predict. The Cuban civil defense program is in many respects in the early stages of development and has many problems. Its future will depend heavily on continued internal momentum and on the quality and quantity of external support. The Soviets' willingness to provide that support could encourage Castro's regime to maintain an active program. [redacted]

The nature of future Soviet support probably was worked out during Altunin's visit. We do not know the purpose or outcome of the visit, but believe it is unlikely that the Chief of USSR Civil Defense would

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Briefs

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Possible Changes in Soviet Export Policy ☐

A senior Soviet academic at the Institute of the World Economy and International Relations recently told a US Embassy officer in Moscow that his institute is studying ways to restructure exports in the economic plan for 1986-90. A high-level Soviet energy official also said in late March that the USSR should seriously consider proposals not to expand natural gas exports and that it should concentrate on exporting chemical products made from gas. Soviet officials previously have indicated concern about the bleak prospects for increasing demand for gas in Western Europe during the next few years and for the USSR's ability to continue large oil exports to hard currency countries. ☐

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In the near term, the USSR could increase exports of higher valued petrochemical products. Because of its limited production capacity, however, these earnings would not be enough to offset a large decline in earnings from energy exports. Although the prospects for growth of gas demand in Western Europe may improve in the longer run, the USSR may still choose to diversify its exports by increasing petrochemical production. Nonetheless, this effort would be expensive, and the Soviets would be gambling that a large market for such products would exist. ☐

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Soviet Concerns Over Korean Contacts ☐

Novosti director Pavel Naumov told a Japanese newspaper in late March that Moscow is concerned that diplomatic moves involving the two Koreas could lead to broader new coalitions and thus increase tensions in northeast Asia. He noted that North Korea has proposed tripartite talks with the United States and South Korea and that there are efforts to arrange visits between China and South Korea for humanitarian purposes. He also observed that moves to settle the Korean question may only complicate the situation. ☐

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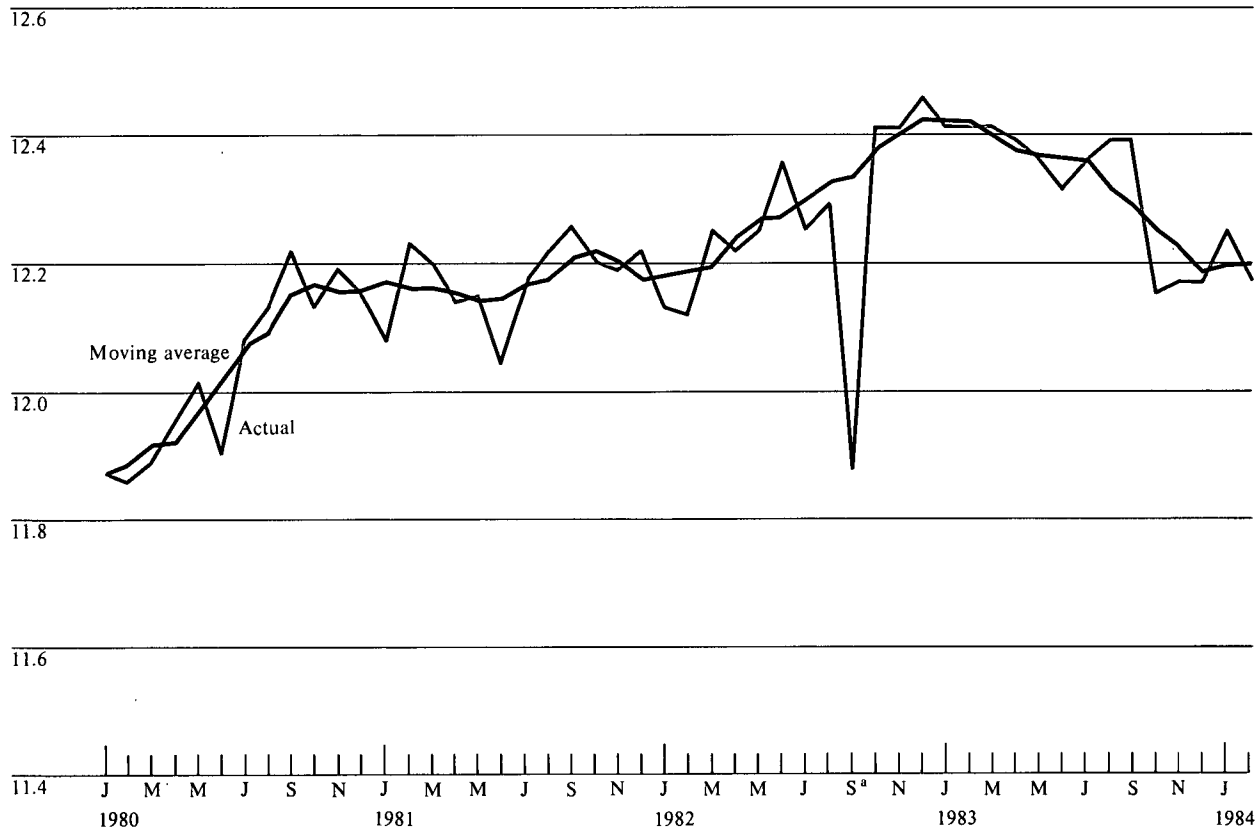
Naumov expressed nominal approval for P'yongyang's proposal for tripartite talks but also indicated that he had serious reservations about it and Beijing's dealings with Tokyo and the two Koreas. Moscow has never enthusiastically endorsed the North Korean proposal, and it apparently is troubled by the prospect of being left out if a substantive dialogue on Korean issues develops. The Soviets, however, have little leverage in the current situation. They have only a lukewarm relationship with the North Koreans, who give no sign of including the USSR in their proposal. ☐

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Secret**USSR: Oil Production, 1980-84**

Million barrels per day



^a Because the sharp drop in oil production in September 1982 was clearly an aberration, the data point for this month was not used in calculating the moving average.

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**Soviet Oil
Production
Problems** ☐

An article in *Pravda* on 3 April stated that the USSR is having serious problems with oil production in West Siberia, which accounts for 60 percent of the country's oil output. The article noted that the main problem is the increasing difficulty in tapping wells, but it also indicated that low-quality equipment, poor planning, and declining labor morale are contributing factors. It stated that oil planners already are talking of lowering their targets for this year and for the plan for 1986-90. Soviet energy leaders have been trying since last fall to reverse the situation. Special measures have been introduced to increase output, including the ordering of some 400 submersible pumps from the United States. ☐

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This is not the first time that the Soviets have publicly discussed their problems in West Siberia, but this is their bleakest description. The article suggests that production problems may intensify and that oil production may have peaked. Data for October 1983 through February 1984 show that oil output has fallen 200,000 b/d from the record level of 12.4 million b/d attained during the previous 12 months. This is the first time since World War II that oil production has fallen over such an extended period. The USSR may have reached a limit in its ability to cope with the operational problems in West Siberia, although the effects of any emergency allocations and new investment may not be clear for some time. ☐

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**Prospects for
Sino-Soviet
Consultations** ☐

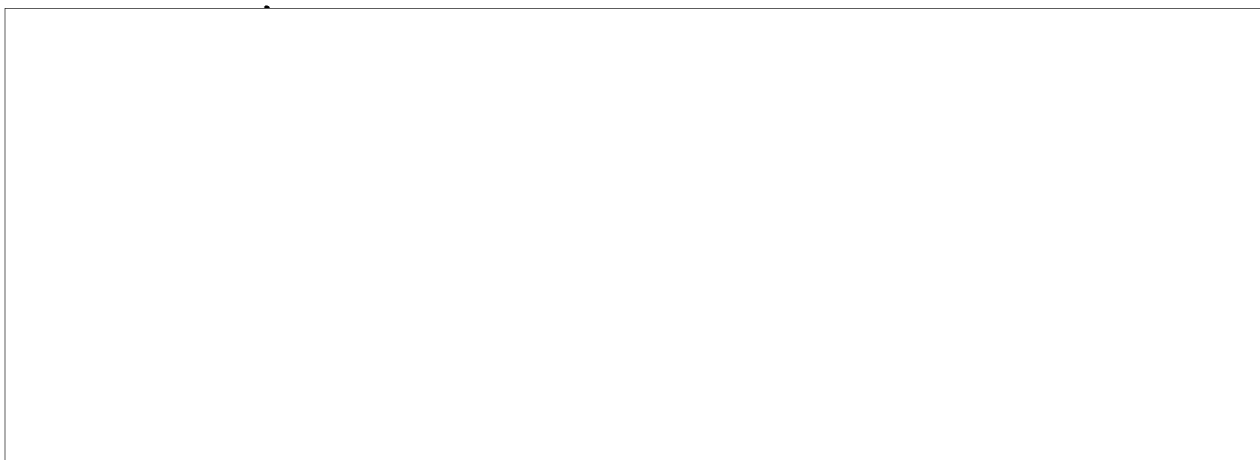
A Chinese official told a US Embassy officer in Beijing in early April that China remains interested in political consultations with the USSR at the foreign minister level, but he did not indicate when such a meeting might occur. He also said that the Soviets, at the annual trade talks in February, had again proposed that bilateral trade be increased to \$5 billion by 1990 and that China is not opposed. Although he noted that Beijing might sign a five-year trade agreement, he said this would have to be discussed further when First Deputy Premier Arkhipov visits China in May. The feasibility of such an agreement, he added, would depend on the types of goods to be traded. ☐

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The timing of a foreign ministers' meeting probably will depend on Arkhipov's visit. Both foreign ministers have busy schedules, however, and it may be difficult to find a suitable neutral site. Although both sides have an interest in increasing bilateral trade, it is questionable that the \$5 billion level could be achieved by the end of the decade. ☐

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Viewpoint

This views expressed in the following article are the author's; they do not necessarily represent a CIA consensus.

Party-Military Relations: Who Is in Charge?

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Has the relationship between the Communist Party and the military in the USSR been fundamentally altered, and is the military now "in control"? Some have been led to this conclusion in the last six months by developments such as the Soviet shootdown of a South Korean airliner (KAL), the increased prominence of Defense Minister Dmitriy Ustinov in the leadership, and the higher visibility of officers of the General Staff. A close examination of speeches and events during this period, however, suggests a different conclusion: that there has been tension on some issues between these two powerful institutions, but on matters of crucial importance to the military—such as resource allocation and national security policy—the party is still the final arbiter.

Background

The party's traditional concern with maintaining control over other Soviet institutions has been particularly evident with respect to the military. Uncomfortable with the presence of another large, highly disciplined organization, the party leadership has devised a number of ways to deal with it:

- The Administrative Organs Department of the CPSU Central Committee must approve all military promotions.
- The Defense Ministry's Political Directorate, operating as an arm of the party, has representatives in the armed forces and handles troop indoctrination.
- The party maintains surveillance over the military through the KGB's Third Chief Directorate.

- The party dominates the policy-level Defense Council, which prepares national security decisions for Politburo approval. The council's membership includes several senior party leaders but probably only one professional soldier (Chief of the General Staff Nikolay Ogarkov).

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The chief focus of the party's control effort, however, has been on the prevention of military involvement in leadership politics. That such involvement is always possible was illustrated in 1957, when Marshal Zhukov threw the military's support to Khrushchev during his fight with the "antiparty group" and Khrushchev paid off the debt by elevating Zhukov to full membership in the Politburo. The pivotal role played by a military leader in this political struggle made the party leadership nervous, and Zhukov was ousted three months later, ostensibly for attempting to reduce the party's controls over the military.

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Despite their restrictions on military involvement in higher politics, party leaders have always recognized the military's right to be heard on policy issues that affect its interests. As national security issues have assumed more importance on the leaders' agenda, the military voice in decisionmaking inevitably has become stronger. The party's acceptance of the military's position on such issues has not been automatic, however, and this has at times produced some tension.

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This tension probably would have been greater in recent years if Ustinov had not been Minister of Defense. Although the high command may initially have been unhappy with the appointment of a "civilian" to the post,¹ Ustinov has been in a favorable position to promote the military's interests in the Politburo and to vote its stock on sensitive political issues—without causing some of the concerns that such actions by a professional officer (like Zhukov) would prompt. On the other hand—given their fears about military influence in higher politics—it has served the party leaders' interests to have a "civilian" rather than a professional soldier representing the military in the Politburo. []

This arrangement, nonetheless, has not prevented occasional military unhappiness with leadership decisions. In late 1982, for example, there were indications that the Brezhnev regime had to make some difficult economic policy decisions—possibly affecting resources budgeted for military programs. Brezhnev and his Defense Council colleagues (including Ogarkov) called an unusual conference of top military officials, at which they seemed to emphasize that the military should do a better job with what it already had and to assure the officers of the wisdom of the party's decisions. The high-level attendance at the meeting was unusual—and reminiscent of other meetings called by the party leadership during periods of apparent tension (in 1967, at the time of the debate over Malinovskiy's successor, and in 1972, before the Nixon-Brezhnev summit and the signing of SALT). []

The KAL Incident

Signs of strain between the military and party leadership reappeared in September 1983, during the aftermath of the KAL shootdown. We have no evidence that the military exceeded its authority in this incident, but at least some party officials indicated that there was considerable dissatisfaction in the Kremlin with the way it had been handled. For example:

- Viktor Linnik, an official of the Central Committee's International Information Department, told a Western interviewer that the Soviet pilot had made a "mistake" in downing the airliner. (Linnik later claimed he had been misunderstood.)

¹ Although Ustinov was closely involved with the Soviet military-industrial complex and attained general officer rank during World War II, he was not a line officer []

- Viktor Afanas'yev, *Pravda's* editor in chief, pointed his finger at "our military" in explaining why the Kremlin had taken six days to admit the airliner had been shot down. He appeared to be hinting that the military had been unable to establish that the plane was a passenger aircraft until an investigation was ordered by the Kremlin.

In a possible response to such criticism from party officials, a January 1984 article in *Red Star*, while endorsing swift military action in these situations, noted the need for more training in identification and warning procedures. []

The evident party dissatisfaction suggests an alternative view of the prominent role assigned to General Staff chief Ogarkov and his deputy, Sergey Akhromeyev, at the Soviet press conference on the KAL incident: it may have indicated an effort by the party leadership to distance itself from the military's action rather than an increase in military influence, []

[] (The military, Foreign Ministry, and party apparatus were represented at the conference, but it was not attended by Ustinov or any other Politburo member.) More generally, the higher visibility of top military leaders did not originate with the Andropov regime but started under Brezhnev, when arms control and national security issues, which fall in the military's sphere of professional competence, began to receive greater emphasis. []

The INF Deployment

The tensions generated by the KAL incident appear to have been exacerbated by the impending INF deployments in Western Europe. A review of articles and speeches by military officials and party leaders since the June 1983 plenum shows an increase in September and October of public discussion about the nature of the "US threat" and the resources necessary to meet it. This was followed in November by:

- An unusual meeting of the Defense Ministry's central apparatus that Ustinov called to endorse Andropov's 28 September statement on those issues.
- Subsequent meetings called by the force commanders for the same purpose.

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- Publication of an article (discussed below) that criticized military pressure on political leaders.
 - A spate of military pledges of loyalty to the party.
- These events suggest that the scheduled INF deployments produced some additional tension, if not debate, between the party leadership and the military that was at least smoothed over by November, when the INF talks were ended. [redacted]

Which issue or combination of issues caused this tension is not clear. The military may have felt some nervousness about the INF negotiations themselves—some concern, perhaps, that party leaders, in their eagerness to keep the negotiations going, might display too much flexibility. [redacted]

The imminent deployment of what the Soviets consider first-strike nuclear weapons in Europe might also have brought some recriminations from the military over the Soviet pledge of “no first use,” which may itself have been a subject of earlier party-military debate. In July 1982 Ustinov wrote that “it was no simple matter” to make a “unilateral commitment” against the first use of nuclear weapons, adding that “quite naturally, the Soviet people . . . our friends . . . are asking whether the right moment was chosen for such a step. . . .” [redacted]

Some military officials may also have been concerned about the adequacy of the measures that were planned to counter the INF deployment. Writing in late September 1983, Ogarkov hinted that the Soviet response might not yet have been determined. Referring to countermeasures that would threaten the United States and basing countries, he wrote that “such possibilities, of course, will be found.” Ogarkov stressed that the Soviet Union would not blindly copy

the United States in the arms race, but would follow “its own course.” This hint that the Soviet response would be different from the US deployments may have been designed to prepare the ground for countermeasures that some military officials might regard as insufficient. [redacted]

The increase in September and October of public discussion about the resources needed to meet the “US threat” also suggests that the INF issue may have been seized upon by those calling for increased defense expenditures. This issue might even have contributed to the delays in scheduling the Central Committee plenum and Supreme Soviet session that were to approve the annual economic plan (which Andropov in his December plenum speech acknowledged was “not easy” to balance). [redacted]

The official line throughout has been the same, however—that the Soviets should not “react emotionally,” as Andropov said in his 28 September statement, and that they “have everything necessary” to meet the challenge. Party leaders and defense officials alike have called for “increasing our defense capabilities.” When they spell out what this means, however, they emphasize increased combat readiness, better training, and more efficiency—not increased resources. [redacted]

In sum, the message conveyed to domestic audiences has been not that more resources must go to defense, but that building a stronger economy will ultimately increase defense capabilities—the same message Brezhnev conveyed in responding to what may have been similar pressures at his meeting with military officials in October 1982. In the leaders’ Supreme Soviet “election” speeches in February 1984, there was virtual unanimity on the need to improve the country’s defense capability, but most speakers described this as a longstanding concern—not one that required any new diversion of resources. Ustinov, for example, said that the Soviet armed forces already had “everything necessary” to defend the country and then gave considerable attention to economic problems, noting that a stronger economy would strengthen Soviet prestige in the international arena. General

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Secretary Chernenko, a longtime booster of the consumer sector, said that the Soviet Union had diverted considerable resources to defense during the past five years but "did not even think of curtailing social programs." [redacted]

Other evidence also suggests that the party leadership has been more successful than the military at using the "US threat" to its advantage. Party leaders, for example, have used it in the campaign to increase labor discipline and performance throughout the economy. [redacted]

In a speech delivered in Kharkov in late October 1983, Ukrainian party leader Vladimir Shcherbitskiy expressed this formulation most clearly: "The better we work, the richer will be our country, the stronger will be its economic and defense potential, the stronger will be its defense capacity, and the better and safer will be our lives." [redacted]

In a similar vein, Moscow party chief Viktor Grishin said at a "unified political day devoted to study of comrade Andropov's 28 September statement":

The international situation that has developed requires further improvement of work in all sectors and the insuring of high standards of organization and order in every labor collective and in places of residence. Today it is especially important for every Communist and every working person to be profoundly aware of his personal involvement in everything that happens in the country and to work with total devotion. [redacted]

Allegorical Criticism

An article published in late November by Fedor Burlatskiy, a longtime associate of Andropov, seemed designed to suggest that party leaders had been under exceptional pressure from the military. The ostensible subject was the alleged military pressure on President Kennedy during the 1962 Cuban missile crisis. That Burlatskiy was writing allegorically was underlined by the parallels he drew between the situations in 1962 and 1983 and by his sweeping condemnation of the military's instincts in such situations. [redacted]

Burlatskiy's article conveyed the clear message that the military should not be allowed to exercise undue influence over sensitive political decisions. His imaginary dialogue had US leaders using strong language to condemn the military's role in decisionmaking and to question its judgment in times of crisis. He attributed to President Kennedy several comments that appeared to reflect the 1983 Soviet context, bringing to mind Andropov's remark in September that "we do not build our policy on emotions":

- "In the conditions of an acute crisis, we have seen that the military is the first to lose its head."
- "The generals are simply furious. . . . The crisis has shown that the most terrible thing there can be is to allow the military to take part in political decisions. . . . Not only political decisions, military ones too."
- "The first advice I will give to my successor will be to keep an eye on the generals and not to think that because they are military men, their opinion on military matters is worth a cent." [redacted]

Andropov may have shared the skepticism expressed in this article about the wisdom of military professionals. [redacted]

Burlatskiy's criticism appeared to focus primarily on the force commanders. In his missile crisis scenario, most of the military pressure on US political leaders came from the "joint military staffs command." If Burlatskiy was in fact alluding to the Soviet situation, it may be significant that it was the force commanders who were called upon to repeat Ustinov's pledge of support for Andropov's statement in the series of meetings in late November. [redacted]

Burlatskiy may also have been alluding to some pressure on Andropov from those in the Politburo who are sympathetic to military interests. In the fabricated dialogue, President Kennedy is asked if he anticipates impeachment and answers: "Anything is possible."

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Passions are white hot (*nakalenny*).” This is an uncommon term that Burlatskiy may have used deliberately to point the finger at one source of opposition to Andropov on defense-related issues. A few weeks earlier, Grigoriy Romanov, a hardline Politburo member and party secretary responsible for military and defense industry matters, had described the international situation as *nakalenny*—a view that appeared more extreme than that offered by other leaders.

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Conclusions

Whether the issue was national security policy, resource allocation, or both, the unusual series of meetings called in November 1983 to demonstrate military fealty to the party and its policies suggest that military interests continue to be subordinate to the party's. Ustinov, in remarks that may have been intended for some dissenters in the defense establishment, has been in the forefront of those endorsing Andropov's statement that the Soviets should not react emotionally to the US challenge and that they “have everything necessary” to meet it. Ustinov also has suggested that the defense industries will have to increase their output through greater efficiency—possibly an oblique way of telling the military not to expect any substantial increases in resources. Ustinov's increased visibility, therefore, seems to have been in the service of the Politburo and its policies and appears to reflect his personal political power rather than the ascendancy of the military as an institution. In sum, the events of recent months do not indicate any significant encroachment by the military on the prerogatives of the party leadership, which—despite the policy drift of Brezhnev's last years and Andropov's prolonged illness—appears to remain in full control of the decisionmaking process.

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